

**MINUTES OF THE
ELECTRICAL DEREGULATION AND CUSTOMER CHOICE TASK FORCE**

June 9, 1999 - 1:00 p.m. - Room 403 State Capitol

Members Present:

Sen. Leonard M. Blackham, Senate Chair
Rep. Blake D. Chard, House Chair
Sen. Lorin V. Jones
Sen. Eddie "Ed" P. Mayne
Sen. Millie M. Peterson
Sen. Michael G. Waddoups
Rep. Sheryl L. Allen
Rep. Ralph Becker
Rep. Jack A. Seitz

Members Excused:

Rep. Judy Ann Buffmire
Rep. Kevin S. Garn

Members Absent:

Rep. David Ure

Staff Present:

Mr. Brian Allred,
Research Analyst
Ms. Patricia Owen,
Associate General Counsel
Ms. Beverlee LeCheminant
Legislative Secretary

Note: Names of others present and copies of information distributed at the meeting are on file in the Office of Legislative Research and General Counsel.

1. Call to Order - Sen. Blackham called the meeting to order at 1:10 p.m.

2. Introduction of Task Force - Task Force Business - Mr. Brian Allred, Research Analyst, gave a brief history of the task force by saying that the original task force was terminated in November 1998 and in its final report to the Legislature recommended that the task force be recreated in the 1999 General Session. The legislation recreating the task force passed and provided for at least two meetings during this interim period with the possibility of two additional meetings if called by the chairs.

3. Update on PacifiCorp -

i. Public Service Commission (PSC) rate case and allocation hearings - Mr. Stephen Mecham, Chair, PSC, gave a review of the Cost Allocation Case and the PacifiCorp Rate Case. He indicated that the PSC went through the rate case, held hearings in October, November, and January, and issued an order in March of 1999. The prospective rate reduction that the PSC found to be necessary was about \$50 million with a refund back to March 14, 1997, which would have been about \$111 million. Mr. Mecham stated that one of the issues in the rate case was the outcome of PSC's allocation case order. With the refund, the PSC saw a unique opportunity to move forward now and take care of a fairness adjustment that is transferred to Utah customers. He said that the PSC decided to take the refund and net the allocation amount against that refund, making the ultimate outcome of an \$85 million prospective rate reduction and approximately a \$40 million refund.

Mr. Doug Larsen, PacifiCorp, stated that the \$85 million price reduction was ordered on

March 4, 1999 and implemented in tariff on March 11, 1999, making a 12 percent overall price reduction. He said that of the \$85 million price reduction, \$55 million is related to the issue of allocation and is currently being picked up by shareholders. The \$40 million refund was given back to customers starting on the April 15th billing cycle, which represented approximately two-thirds of a month's bill for most customers. As a result of the rate case, the average residential customer in Utah pays approximately 5.9 cents per kilowatt hour, which is the lowest rate in PacifiCorp's system.

ii. Proposed merger with Scottish Power - Mr. Ric Campbell, Director, DPU, distributed and discussed the PacifiCorp-Scottish Power Merger Case Schedule by State. He indicated that all the parties in Utah will file their testimonies and positions on the merger on June 18, 1999. After the testimonies have been filed, the hearings before the PSC will take place in July and August. He said that Utah currently has 18 parties to the case, each with their own interests, and those interests will be made known and argued before the PSC.

Mr. Lowell Alt, Energy Manager, DPU, told the task force that the PSC requested early in the merger that all the parties that will be affected by the merger list in writing all the issues that related to their concerns about the proposed merger. DPU reviewed all the different categories and lists of issues and grouped them into five key issues: 1) the risk that service, quality, and reliability may get worse; 2) the risk that rates may go up due to the merger; 3) the ability of PSC to regulate; 4) the risk of adverse impact on the state, communities, and employees; and 5) the risk to environment, energy conservation, municipalization, retail competition, and location and aesthetics of facilities. Mr. Alt provided the task force with copies of his presentation.

Mr. Alan Richardson, CEO, PacifiCorp, said Scottish Power is the largest electric company in Britain and has been serving the cities of Glasgow and Edinburg for well over 100 years. They have 5.5 million customers and over 14,000 employees. They build businesses of successful electricity operations which is relevant to their future intentions in Utah. Their business is highly regulated in Britain and they deal with regulators and regulative issues everyday. Their plan has always been to operate high quality, low-cost businesses with superior customer service in the front of their minds. Mr. Richardson stated that PacifiCorp will continue to be run by PacifiCorp people with about 20 people from Britain embedded in the organization to give it strength. He indicated that Scottish Power has a commitment to customer guarantees that forms into two parts: 1) network reliability; and 2) individual customer guarantees. Mr. Richardson provided task force members with a booklet titled "Scottish Power/PacifiCorp Customer Service Standards."

4. PacifiCorp Stranded Costs - Mr. Ric Campbell, Director, DPU, distributed and reviewed a handout titled "PacifiCorp Stranded Costs-June 1999." He said that the Oregon Legislature is debating electric restructuring legislation and that PacifiCorp has offered an amendment to that legislation that deals with the sharing of stranded benefits. The amendment would give shareholders 60 percent of the stranded benefits in Oregon.

Mr. Doug Larson, PacifiCorp, said that in discussing deregulation or restructuring, they are talking about a generation piece of the business, which is a subset of the electric business that PacifiCorp owns, which is a subset of the entire PacifiCorp operation, and Scottish Power is buying the entire PacifiCorp operation. He stated that in assessing stranded costs or benefits, those assets that are being assessed need to be freed up so they can be sold. The reason customers want to go out into the market is because they think they can get a lower price. He said that if the state moves toward a restructured environment, the assets need to go with the stranded costs or benefits so they can be dealt with in the same arena.

Mr. Robert Reeder, representing large industrial customers, stated that stranded costs are generally revealed when the generation assets of an electric utility are exposed to competition and competition reveals the market value of the asset. If that value is less than the book value, it gives rise to stranded costs. He distributed and reviewed a handout titled "The Impact on Stranded Costs of the Acquisition of PacifiCorp by Scottish Power."

Mr. Roger Ball, Committee of Consumer Services, pointed out that if there are stranded benefits or negative stranded costs, PacificCorp should not have to fund that in some way to pay money to customers for it when it hasn't actually received the money in some tangible form. They should not be unfair to the company, but need to be careful to be fair to the customers.

Mr. Jeff Fox, Crossroads Urban Center, said that in looking at stranded costs, the transmission capabilities are important in being able to market the state's electricity elsewhere and being able to pick up some of the cheaper northwest power. Until the state looks at the transmission capability and has a regional transmission organization set up that can look at the congestion, questions arise regarding stranded costs because the state does not have the ability to be able to transmit power both ways. He stated that another consideration is that the state may be looking at some drought years in the future and when that occurs the coal mines in Utah are going to go up in value.

Ms. Nancy Kelley, Committee of Consumer Services, said that stranded costs hinge on the assumptions that prices will be lower if Utah is in a deregulated market, but that is all theory at this point. The states that have passed restructuring legislation are not at the point of lifting their rate freezes and, until their rate freezes are lifted, they won't know what happens to prices and whether there will be stranded costs overall. She urged the task force to wait and see what happens in those states that have deregulated.

5. Update on Rural Electric Cooperatives and Municipal Power Providers -

i. Rural Electric Cooperatives - Mr. Mike Peterson, Utah Rural Electric Association, told the task force that seven more states have enacted restructuring legislation, which brings the total to about 20 states now. He said that the Clinton administration has proposed restructuring legislation since the task force last met and the co-ops have studied that legislation and have some concerns with

some of the areas that are in the proposal. The co-ops do not see a great sense of urgency for Utah to take action toward restructuring yet and are trying to make sure that consumers are protected and have the right to safe, affordable, and reliable electric energy.

ii. Municipal Power Providers - Mr. Ted Rampton, Utah Associated Municipal Power Systems, said that UAMPS is progressively working and preparing its members for customer choice and have initiated some programs and opportunities for them to deal in the market. One of those is a Power Exchange Program which allows its members to directly access the market through their organization so they can make their own transactions directly with other utilities. He stated that UAMPS is concerned about the stranded cost treatments and would like the opportunity to mitigate their own stranded costs. He urged the task force to take a position in support of relaxing the IRS rules which would let UAMPS compete in the market if customer choice comes about.

Mr. Richard Judd, Utah Municipal Power Agency (UMPA), distributed a handout titled "UMPA's Update." He reviewed the Largent/Markey bill in comparison with the administration's bill and stated that UMPA's position is that if the state becomes deregulated, UMPA is not for it or against it, but the benefits of deregulation need to benefit all consumers.

Mr. Leon Pexton, UMPA, said that reliability in the electric system is most important to UMPA.

6. Activity in Other States and the Federal Government - Ms. Patricia Owen, Associate General Counsel, gave an overview of state electrical restructuring efforts. She provided task force members with printed copies of her overview.

Mr. Brian Allred, Research Analyst, gave an overview of selected federal action. He provided task force members with printed copies of his overview.

Sen Blackham discussed some information he received at a Western States Conference he attended in Denver. He stated that the federal government Department of Energy presented the issue from the administration's point of view and wants to proceed as quickly as possible with deregulation. Their purpose is to try to decrease pollution and they see some substantial benefits that could come to the country and the world through this process. The issue of renewables was also discussed and the Department of Energy's proposal was a seven and one-half percent requirement of renewables now. He indicated that the two issues that became the center of the conference were transmission and market power and that stranded cost was not an issue.

7. Task Force 1999 Interim Study Plan - Sen. Blackham said that the chairs are proposing that the task force have one more meeting this interim to proceed with the 1999 interim study plan by continuing to monitor the activities of the other western states served by PacifiCorp, the federal action with FERC and RTOs, and legislation before Congress. He stated that staff will continue to work with PSC and DPU as they monitor the same key issues and will update the task force with information related to those issues.

MOTION: Rep. Seitz moved that the task force adopt the potential study plan and leave it to the discretion of the chairs if another meeting is warranted before October.

Sen. Blackham asked members of the task force to seriously consider the stranded cost issue with the proposal of a merger between PacifiCorp and Scottish Power. He suggested that by definition the task force should consider legislative action clarifying the issue relating to PacifiCorp.

SUBSTITUTE MOTION: Rep. Allen moved that the task force hold a meeting in July or August, if the chairs warrant it necessary, based on the recommendations made public on June 18th regarding stranded costs. The motion passed with Sens. Waddoups and Blackham voting in the negative. Sen. Peterson was absent for the vote.

8. Adjourn - Sen. Waddoups moved to adjourn. The motion passed with Sen. Peterson absent for the vote.

Chair Blackham adjourned the meeting at 4:05 p.m.

